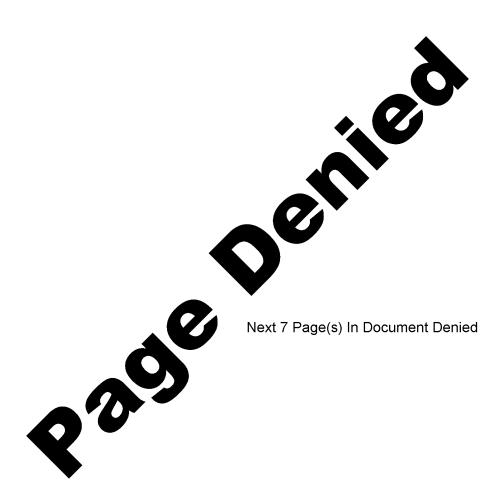
Approved For Release 2008/12/02 : CIA-RDP89B00423R000300370021-0 **EXECUTIVE SECRETARIAT ROUTING SLIP** INITIAL DATE INFO **ACTION** TO: X w/b att 1 DCI X w/o att 2 DDCI 3 EXDIR 4 D/ICS 5 DDI 6 DDA 7 DDO 8 DDS&T 9 Chm/NIC 10 GC 11 IG 12 Compt 13 D/Pers 14 D/OLL 15 D/PAO 16 SA/IA 17 AO/DCI 18 C/IPD/OIS X w/att VC/NIC X w/o att 20 SRP 21 22 SUSPENSE 25X1 Remarks

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capital gains are taxed at a maximum rate of 20 percent.

Two things are clear about the impact of the most recent favorable change: It will be good for the securities industry and it will be good for the wealthy. A Joint Committee

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name Committee Chairing.
J. We (R-Kan.). "People who cannot afford the risk of fluctuation for a full year will be able to invest in our economy."

Dole had sought the change for several years and had been opposed

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'Underused' World Bank Rethinks Lending Role

By Hobart Rowen
Washington Post Staff Writer

World Bank officials, desperately, worried about what one termed the "dialogue of the deaf" now going on between the rich lending countries and the poor borrowing nations, have begun a major review of the role of the bank in the current Third World debt crisis.

This self-examination has been in process since January through 12 separate task forces reporting to Vice President Joseph Wood. A final report, due in early 1985, will provide the backdrop for a new general capital increase to be proposed by Bank President A. W. Clausen.

Although the review is obviously at a very early stage, it appears that the chief new idea that may come out of it is creation of a new "World Bank's Bank." This new affiliate would borrow in the Euro-money and other commercial markets and recirculate that money in additional loans to Third World borrowers. There is no indication, yet, that this proposal is acceptable to the Reagan administration.

The "Bank's Bank" would not be bound by the unique restraint on World Bank lending that now limits the total amount of its loans to the exact value of its capital. This highly conservative 1-to-1 "gearing ratio" has the benefit of maintaining the bank's credit rating at an enviable triple-A level. But it is also regarded as a lending straitjacket for the bank.

Bank officials acknowledge that the International Monetary Fund has been a magnificent "fireman" in the last couple of years, dealing efficiently with the emergency aspects of the Third World debt crisis. But they contend that the underlying problem cannot be solved through belt-tightening programs alone, and that the debtor nations need more help from the bank—especially in the medium term—that will stimulate economic growth and, hence, the ability to increase exports.

"We're in a period now," says Anne O. Krueger, the bank's chief economist, "where we have to focus on resumption of [economic] growth."

In a series of interviews, bank officials said that today's basic reality is that the bank could borrow more, and lend more, given the critical nature of the debt problem. The bank, they hold, should be devising many ways—including the "Bank's Bank"—in which it can play a catalytic role in pushing private and public investment money into the Third World.

The basic motivation for a reevaluation of the bank's role, technically speaking, is Clausen's insistence that before he goes to the membershareholders for a new capital increase, there be a fundamental reexamination of "what the bank ought to be doing," Wood said.

But underneath it all is a deepseated feeling of frustration at the top managerial level of the bank over its failure so far to gain political support from the United States and other major shareholders for a more active role in Third World development.

The bank, Clausen is fond of saying, is "underutilized." Others seem to agree: At a recent private meeting with the bank's operating managers in Bedford Springs, Pa., Federal Reserve Chairman Paul A. Volcker asked rhetorically: "Where have you been?" (He conceded later that the bank has been more involved in places like Brazil, Yugo-

See BANK, G4

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Review May Give Birth To 'World Bank's Bank'

BANK, From G1

slavia and Turkey than he had realized.)

The role-of-the-bank exercise comes at a time when its critics charge there has been a steady shift under Clausen to a "new orthodoxy" responsive to conservative views—especially those of the Reagan administration and, to a lesser extent, those of British Prime Minister Margaret Thatcher. The United States, of course, is the bank's principal and most influential shareholder.

This "new orthodoxy," says Princeton professor and World Bank consultant John P. Lewis, accepts a "think small" philosophy because of worldwide budgetary constraints, as well as increasing emphasis on the view that "private sectors always work better than public sectors."

Lewis points out that in Third World countries, the public and private sectors are often mixed, and "you can get better performance in one or the other depending on which has the more efficient management."

Bank officials deny that they are unduly influenced by any member country's private vs. public sector differences. But they concede that they have been sobered by the dramatic slash enforced on their program of concessional aid, run through the International Development Association, by the major nations' budgetary restraints.

Notably, there was American refusal to go along with the bank's first proposal of a \$16 billion IDA program for the next three years, revised to a bank "asking" figure of \$12 billion and finally to a figure of

\$9 billion that Clausen has termed inadequate.

"We don't think small," said Wood, "but now we have to think smart." This means, as Lewis suggested, that the bank has had to shift from devising ways of getting more resources to more efficient use of available resources.

Within this framework, they say that commercial banks, now timid about increasing their exposure in the Third World, would willingly lend to the bank, which—acting as an intermediary—could relend the funds to developing countries.

Outsiders are dubious about the prospects for the bank to play an enhanced role of any kind, unless there is a dramatic change of heart in the Reagan administration.

The administration supports the IMF's "case-by-case" approach to Third World debtors, with financial aid hinged on the borrowing countries' efforts to get their financial houses in order. Such a strategy contemplates only a supportive role by the bank, in which it concentrates on accelerating the flow of private investment money into the major debtor countries, and on its concessional aid programs elsewhere. Treasury officials say frequently that the bank should remain a development agency and not try to duplicate IMF functions by switching to so-called "policy-base lending.

Nonetheless, Clausen will present the results of the bank's internal studies as a series of options at the time of the annual joint meeting here in September of the bank and the International Monetary Fund. At that stage, the bank will focus on what additional things

See BANK, G5

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World Bank, IMF Clash as Sibling Rivals

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BANK, From G4

it can do in two main areas—the Latin American group of big debtors, and Sub-Saharan Africa.

ors, and Sub-Saharan Africa.

The bank is already experimenting with a variation of an interest "cap" idea, proposed by some as a way of easing the debtor nations' repayment burden to commercial banks. The bank's new gimmick involves a fixed semiannual payment schedule for the life of some of its loans. If interest rates rise above a reference point, the semiannual payment includes less principal and more interest.

A variety of other schemes for adding liquidity for the borrowing countries are being sifted. For example, the bank is exploring how it might use its guarantee powers to

ease the present crisis.

"The Bank's Bank," as now envisaged, would not be bound by the 1-to-1 loan-to-capital ratio that inhibits the bank itself, but would not go to the outer limits of the 30-to-1 ratio generally associated with commercial bank practice. Bank officials talk of a more modest 10-to-1 "gearing ratio."

The affiliate would have to pay more to borrow than does the World Bank, and the interest rates it would charge developing nations would therefore have to be higher. But it would be able to step into the present lending void created by the reluctance of many commercial banks to add to their exposure in the Third World.

The World Bank's search for a way to take its place, alongside the IMF, as a major player in the current crisis dovetails with some very generalized conclusions of the recent London economic summit. But the summit leaders, not wholly agreed on how to deal with the debt crisis, did not chart out a specific course for the bank.

They did plead for greater "cooperation" between the bank and the IMF—but this appears to mean different things to different summit leaders. "Forgive my cynical reaction," said a high IMF official speaking privately, "but what the French mean by cooperation is that the fund and the bank together should put more money into their ex-colonies in Africa, so they'll have to put less in themselves."

When the United States argues for more "cooperation," an American official bluntly told The Washington Post, it means only that the bank should take care not to frustrate any IMF activities. Some U.S. officials claim there have been occasions, most recently in Brazil, when the bank tried to get local officials to expand their credit commitments for World Bank development programs that would have expanded the money supply beyond the targets agreed upon with the IMF.

There is a certain amount of natural rivalry between the staffs at the IMF and the World Bank, the two sister international institutions founded at Bretton Woods in 1944. The much bigger World Bank bureaucracy, as many in the IMF and officials in developing countries see it, is often undisciplined. An IMF official, in charge of his agency's

liaison with the bank, complains that he doesn't know who is his opposite number.

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It is commonly alleged that the bank, in its dealings with client countries, orders local officials around, often conveying a highly resented "Poppa knows best" attitude

From the IMF's point of view, the best role for bank would be to continue to concentrate on its effort to get subsidized aid to the really poor countries—especially in Sub-Saharan Africa—through the IDA program, and to leave the balance of payments adjustment programs in the more advanced Asian and South American countries where they are, in the IMF. The IMF would like to look to the bank for advice on investment, pricing and other microeconomic problems.

They agree there must now be a focus on the medium term, as bank insiders say. But one official responds: "We think we're [already] in the medium-term business. And, like it or not, that's what we are. The founders of the fund wouldn't recognize and probably would shrink from that thought. But it is a succession of short terms to get to the medium term ..."

the medium term ..."

Across 19th Street, at the World Bank, the IMF view is regarded as a bit simplistic, even chauvinistic. The bank would like to expand its lending operations, say, into a sixto eight-year period. "When the summit declaration called for greater cooperation between us," said one official, "they meant that the time has come not merely for trying not to get in each other's way, but for some positive action to support each other."

In an interview, senior bank Vice President Moeen A. Qureshi put it this way:

"What people are saying is that so far... the IMF has done a splendid job, but they do not see IMF in the situation where it can take the steps that are necessary in the adjustment process in these countries, in the medium-term adjustment process in these countries, to restore, to resume economic growth.

"And they see therefore a need for the bank to come in. Now, if the bank is to come in, then they see the need for a much closer meshing of IMF's operations, programs in these countries with the programs of World Bank."

wind Qureshi's words is a conviction widely held among experts on world development problems: The world has emerged from recession only to find the debt problem wed; growth-inhibiting protections on the rise; and with prospects that things will get worse before they get better. And in Latin America, where American banks have huge commitments, the fear is that the painful economic crisis will result in a reversal of recently won gains for democratic institutions.

"Dialogue of the deaf" was the phrase used by recently retired Vice President for External Relations Munir Benjenk to describe the decline in private bank lending under the umbrella of IMF austerity, while the Third World demands more money with less rigid restrictions—and at lower interest rates if possible.

Bank officials argue that the time has come to alter these fixed postures—avoiding the extremes of rigid austerity on the one hand, or radical debt forgiveness schemes on the other. It is to this end, they say, that the review of the bank's role is directed.

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